LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7736 **NOTE PREPARED:** Jan 14, 2003
BILL NUMBER: SB 417 **BILL AMENDED:**

SUBJECT: Coal Combustion Tax Credits.

FIRST AUTHOR: Sen. Waterman **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill creates a tax credit for end users who purchase and use components manufactured in Indiana and composed of at least 50% coal combustion waste. The bill also creates a tax credit for manufacturers of components composed of at least 50% coal combustion waste. The bill requires a taxpayer to pay at least the prevailing wage to be eligible for a tax credit.

Effective Date: January 1, 2003 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate these tax credits. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual and corporate taxpayers that are end users or manufacturers of tangible personal property composed of at least 50% coal combustion products. As data is unavailable regarding use levels and the amount of materials and goods containing at least 50% coal combustion products manufactured in Indiana, the revenue loss from the tax credits is indeterminable. The revenue loss will be contingent on users and manufacturers paying their employees at least the prevailing wage. The extent of any revenue loss also could depend on the degree to which the tax credits encourage additional use and manufacturer of products containing coal combustion byproducts. The revenue loss from this bill could potentially begin the second half of FY 2003 or in FY 2004.

The bill establishes a refundable individual and corporate AGI Tax credits for end users and manufacturers of materials, goods, or other tangible personal property (<u>referred to as *recycled components* under the bill</u>) composed of at least 50% *coal combustion products*. The bill defines coal combustion products as byproducts from the combustion of coal in a power generating plat, including bottom ash, fly ash, and scrubber sludge. The table below reports the approximate 1999 total production of coal combustion products and percent reused for seven utilities in Indiana (NiSource, Cinergy, AEP, Vectren, Hoosier Energy, IKEC, and IPL). Coal combustion products include not only flyash, but also bottom ash and flue gas desulfurization (FGD) materials. Based on this data, Indiana is slightly ahead of the national average reuse percentage, which is approximately 31% reuse for coal combustion products. More recent production and use data has been requested.

1999 Coal Combustion Products Totals			
Product	**Tons Produced**	**Tons Reused**	**Percent Reused**
Flyash	3,287,072	1,130,152	34%
FGD Materials	3,779,295	1,839,141	49%
Bottom Ash	1,162,642	497,420	43%
Total	8,229,009	3,466,713	42%

The end user credit is equal to the lesser of: (1) 25% of the amount the end user pays during the taxable year for purchases of recycled components, or (2) $1,000. The manufacturer credit is based on the amount invested during the taxable year in depreciable property used in the process of manufacturing recycled components. The credit is equal to 25% of the amount invested in the taxable year up to $500,000, and 15% of the amount of additional investment in the taxable year up to $1.0. The bill requires end users and manufacturers to pay at least the prevailing wage (as determined by the Department of Workforce Development) to their employees in order to qualify for the tax credits. In addition, the bill limits each end user and manufacturer to one tax credit per taxable year.

Since these tax credits are effective beginning in tax year 2003, the fiscal impact could potentially begin the second half of FY 2003 or in FY 2004. Revenue from the AGI Tax on corporations is deposited in the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> Department of State Revenue. Department of Workforce Development.

<u>Local Agencies Affected:</u>

<u>Information Sources:</u> R. James Meiers, Indianapolis Power and Light, (317) 261-5185.

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